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BUSINESS STRATEGIES FOR EMERGING MARKETS: AGILITY, SIZE AND TASTE

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The term 'BRIC' was invented by Goldman Sachs economist Jim O'Neill in 2001 to shorthand the four key emerging economies to watch. BRIC, of course stands for Brazil, Russia, India, China – countries that have, over the past decade, produced a third of global GDP, and represent a quarter of world's population. In 2010, the BRIC middle classes - with incomes between 6,000 and 30,000 USD - overtook that of the G7, and it has been estimated that this middle class population will double by 2020, profoundly changing demand trends in favour of value-added products such as cars, office equipment and technology.

"We would better name the BRICs the 'new developed countries'," said Sudhi Seshadri, an associate professor of marketing at the Centre for Emerging Markets – a research centre of Singapore Management University and the Moscow School of Management SKOLKOVO. The change in BRIC economies has enriched local population, diverting consumption patterns upwards on the scale and away from mass-produced low cost products. The growing middle class wants cars and modern home conveniences. Offices want cell phones, laptops and efficient telecom operators.

"Consumers have become pickier in Russia, especially the youth. They have access to more information so they get more and more demanding on price and quality," said Tan Joon Hong, COO of Food Empire. "In China, consumers have become more aware of their options, more mature and discerning too.

Consumer confidence motivates the pursuit of different experiences." added Dennis Mark, vice president and general manager at the Hewlett-Packard Personal Systems Group for South Asia and Taiwan.

As a part of this evolution, BRIC countries have pursued diversification in their business strategies. The previous global approach is no longer applicable. For instance, Russia is a huge territory with ten time zones. Saint Petersburg and Moscow remain the main cities, but business approaches vary greatly outside them.

In China, authorities have pushed businesses to 'Go West' into the country's interior, with each segment now large enough to be sub-segmented. "While the top three cities on the East coast are still the largest economic powerhouses, in-land growth, such as in Chongqing, has been a critical force for domestic growth," said Mark.

"To economic and accessibility issues, India has added the complexity of languages, religions, and social structures," warned Harpreet S. Kaintel, chief strategy officer at ZenithOptimedia, Asia Pacific. To handle diversity, many brands have a product-line approach. "Diversity is handled by the up-market and down-market stretch of the initial product. The line can then be filled in as you develop your presence in a new country," Seshadri suggested.

Entering fast evolving markets

Penetrating a new market depends on market size, opportunities for economy of scale, and funding. In China and India, a local partnership is often recommended due to government regulations.

"Distribution is a big issue in BRICs as these are very large territories. Conversely, smaller Southeast Asian nations have more local distribution that a firm can own," Seshadri noted. Some products necessitate the use of local retailers, especially in the 'Fast Moving Consumer Goods' or FMCG sector.

"In China, it is better to get a local partnership in distribution. But there are huge differences between small and big cities. National distributors may not have the right approach for a tier 5 [smaller] city," said Mark. Tan added that retail chains may be very selective on the products that they choose to display. This, he said, has been observed in Russia, where entry costs are prohibitive – and more so in big cities like St Petersburg or Moscow.

Seshadri opined that retail level 'trade promos' will be important, especially where the competition is intense. If a company has good funding, an alternative to partnership is to acquire a local brand. In 2007, Food Empire acquired a local coffee brand in Russia - Petroskava Sloboda- which has a 6 per cent market share and is complementary to the premium imported brand of Food Empire, MacCoffee.

"Acquisition is an advanced strategy, when a country is well-understood. Franchising requires a bigger commitment, but is useful to locate inside the targeted country. Joint ventures are always risky and need a clear exit policy as they will have an end date," said Seshadri.

Whatever the choice for distribution, it is highly recommended that companies hire local talent. In many emerging countries, English is only used at an international or top-management level – and the BRICs are no exception to this rule.

"Language is an important barrier for trade in Russia. You have to hire local talent with an experience in management. Unfortunately, the best local professionals are expensive in Russia," said Tan. International companies have a tendency to prefer hiring managers from their home base than from the local market.

But, in order to compete effectively, a foreign company needs a strong local team to combine global scaling with local consumer knowledge, which creates a sustainable combined competitive edge," Mark said.

"A firm needs a 'local component', (be it) partnership or a strong on-site team, which has a strong stake in success. What you have to be wary of, is just depending on local employees and their personal growth prospects," said Kaintel.

Adjusting to local taste

Having decided on how to enter a market, product branding must then be reviewed. Some companies adapt their brand to local marketing. However, this practice is shrinking as marketing patterns become global.

"The same brand identity should be maintained as consumers may see similar ads, especially online. If markets are not well-linked but similar, the brand may have different names and a slightly different positioning, but the branding platform must be common," explained Seshadri.

"Developed markets, like emerging markets, have become more homogeneous. But as far attitudes toward brands are concerned, they have different sensibilities and perceptions which need to be taken into account," added Kaintel.

Adjusting the package and "flavours" regularly is another part of the branding. "20 years ago, when we came to Russia, we had an American eagle and flag on the package. At that time, Russian consumers liked foreign products. Now, we have revised our package to reach younger consumers who are patriotically proud and want to drink local products," said Tan.

Businesses need to learn and adapt to local values and customs. Pay extra attention when using humour, for example, Kaintel warned, as jokes are often subjective and linked to culture. It may be helpful to work with a local advertising company, who may be in a better position to develop the right message.

A final issue is pricing. Ability and willingness to pay varies from country to country. Usually, there would be a segment of the population in emerging markets that mirror a developed-nation domestic market. It just needs to be identified. On the other hand, there is a rising middle class who will want access to luxury. Kaintel noted that China now has a larger luxury market than Japan. It also has a much larger middle class just waiting to be tapped.

How far should a company adapt its product to match local tastes? 'Think Local, Act Global' remains the slogan. "Global standardisation has a huge cost reduction advantage. What should be local is the specific target market segment characteristics – such as disposable income, values, cultural associations and competitive reactions," said Seshadri.

The next big thing

The new emerging markets to watch are collectively known as the 'Next Eleven': Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, South Korea, Turkey, and Vietnam. While many of these N-11 countries are in Asia, its populations are notably fragmented and dynamic.

"Micro-segmentation and flexible approaches are important for these markets," said Seshadri. Being so close to such growing markets offers Singapore an advantage, Mark added. Singapore has a lot to gain by making itself interesting to its neighbours." The advantages of the city-state lie in its geographical proximity, and similarities in culture and languages to its neighbours.

"Moreover, risk can be reduced by doing good test-marketing right in Singapore. Indeed, there are consumer segments here that match each of the target segments in Asian emerging markets," Seshadri concluded.